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AGENDA ITEM 6g

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Manager Development Program II (MDP II) Update

II. PROGRAM: Global Equity

III. RECOMMENDATION: Information Only

IV. ANALYSIS:

Background

At its August 16, 2004 meeting, the Investment Committee approved and delegated authority to staff to expand and improve the Manager Development Program (MDP) with the creation of the Manager Development Program II. In structuring MDP II, staff considered and recommended numerous improvements to be included in the new program, such as: 1) increase the capital contribution from the MDP II Advisor for the private equity investment, 2) create an opportunistic investment period, 3) eliminate paying fees on committed capital, 4) both staff and the MDP II Advisor must agree on each investment, and 5) include emerging hedge fund-of-funds.

At the June 13, 2005 meeting, the Investment Committee approved five firms for inclusion into the MDP II spring-fed pool of advisors: Bear Stearns, Legato Capital Management, Progress Investment Management, RockCreek Group, and Strategic Investment Management. Two of these firms specialize in long-only strategies (Legato, Progress). One has the capability to do both long-only and fund of hedge fund firms (Strategic). The remaining two specialize in emerging hedge fund-of-funds (Bear Stearns and RockCreek Group).

Two Firms with LLC Contracts

Staff has contracted with all five strategic advisors for the spring-fed pool; however limited liability agreements are being negotiated and signed one advisor at a time. Staff has signed or is close to signing with two advisors: Legato Capital Management and Strategic Investment Management. Staff signed a limited liability agreement with Legato last month to be an advisor to emerging long-only firms. Similarly staff expects to sign limited liability agreements with Strategic this month to enable them to be an advisor to both long-only and hedge fund-of-fund firms. Staff may proceed with more advisors in the future.

Update on the Current Environment

In the MDP II program approved by the Committee in August of 2004, staff recommended including hedge fund-of-funds along with long-only public equity and high-yield fixed income strategies.

Staff is seeing a substantial number of opportunities with the two advisors mentioned. Initial due diligence from both advisors indicate there are numerous long-only candidate firms for MDP II exhibiting high quality and diversity.

In the eighteen months since staff presented its recommendations to the Committee for MDP II, significant changes have occurred in the hedge fund-of-fund environment. As investment returns in the hedge fund marketplace have come down, the margins of smaller hedge fund-of funds have been squeezed. In addition as institutions have become more sophisticated, increasingly investors are going direct to hedge funds and by-passing the fund-of-funds providers. Also, the larger hedge fund-of-funds have a significant advantage over smaller ones in gaining access to the scarce capacity in the best hedge fund managers.

This more challenging environment does not prevent Strategic Investment Management from bringing hedge fund-of-fund firms to staff. Should the current environment change, the contracting structure will enable staff to be opportunistic. In addition, the spring fed pool structure will enable staff to engage the services of RockCreek and Bear Stearns at any time.

Emerging Hedge Fund Managers

We are currently reviewing emerging hedge funds as potentially an important component of the Risk Managed Absolute Return Strategies (RMARS) Program. Staff's analysis of the hedge fund marketplace indicates that building a fund of emerging hedge funds may be the best way to take advantage of the emerging elements of the hedge fund marketplace. Staff will report back to the Committee on this analysis within the RMARS Program as it progresses.

V. STRATEGIC PLAN:

This item is consistent with the Strategic Plan: Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits, and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

Staff does not anticipate any change in results or costs.

Derek Hayamizu Portfolio Manager	Kurt Silberstein Portfolio Manager
Mary C. Cottrill Senior Portfolio Manager	Christianna Wood Senior Investment Officer
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